

# Auditor's Report & Findings

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## Auditor's Report & Findings

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# LEGISLATIVE AUDIT DIVISION

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## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Legislative Audit Committee  
of the Montana State Legislature:

### **Compliance**

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2005. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

In our opinion, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the two fiscal years ended June 30, 2005. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: 2-1, 2-2, 2-3, 2-4, 2-5, 2-6, 2-8, 2-9, 2-12, 2-13, 2-14, 2-15, 2-16, 2-17, 2-18, 2-22, 2-23, 2-24, 2-27, 2-28, 2-29, 2-30, 2-32, 2-33, 2-34, 2-35, 2-36, 2-37, 2-39, 2-40, 2-41, 2-42, 2-43, 2-44, 2-45, 2-46, 2-49, 2-50, 2-51, 2-52, and 2-53.

### **Internal Control Over Compliance**

The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the state of Montana's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: 2-7, 2-8, 2-9, 2-10, 2-11, 2-12, 2-13, 2-19, 2-20, 2-21, 2-24, 2-25, 2-26, 2-28, 2-29, 2-31, 2-34, 2-35, 2-38, 2-40, 2-42, 2-46, 2-47, 2-48, 2-50, 2-51, and 2-52.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

November 23, 2005

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section I – Summary of Auditor’s Results**

**Basic Financial Statements**  
**For Each of the Two Fiscal Years Ended June 30, 2005**

	<u>2004</u>	<u>2005</u>
Type of auditor’s report issued:	Unqualified	Unqualified
Internal control over financial reporting:		
• Material weakness identified?	No	No
• Reportable conditions identified that are not considered to be a material weakness?	No	No
Noncompliance material to the financial statements noted?	Yes	Yes

**Federal Awards**  
**For the Two Fiscal Years Ended June 30, 2005**

Internal control over major programs:	<u>2005</u>
• Material weakness identified?	No
• Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes
Identification of major programs:	
<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.551 & 10.561	Food Stamp Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	Child and Adult Care Food Program
10.665	Schools & Roads Cluster
12.400	Military Construction, National Guard
12.401	National Guard Military Operations & Maintenance Projects
14.195 & 14.856	Section 8 Project-Based Cluster
14.228	Community Development Block Grant/States Program
14.239	Home Investment Partnerships Program
14.871	Section 8 Housing Choice Vouchers

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section I – Summary of Auditor’s Results**

Identification of major programs continued:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
15.605 & 15.611	Fish & Wildlife Cluster
17.207, 17.801 & 17.804	Employment Service Cluster
17.225	Unemployment Insurance
17.258, 17.259 & 17.260	Workforce Investment Act Cluster
20.205	Highway Planning and Construction Cluster
21.999	Jobs Growth & Tax Relief Reconciliation Act
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
84.007,84.032,84.033,84.038, 84.063, 84.268, 93.364 & 93.925	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster
84.032	Federal Family Education Loans (Guaranty Agency)
84.126	Rehabilitation Services-Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low Income Home Energy Assistance
93.575 & 93.596	Child Care Cluster
93.658	Foster Care Title IV-E
93.667	Social Services Block Grant
93.767	State Children’s Insurance Program
93.775, 93.777 & 93.778	Medicaid Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.004, 97.042, 97.053 & 97.067	Homeland Security Cluster
97.046	Fire Management Assistance Grant
Various	Research and Development Cluster

Due to the errors addressed in Finding 2-48, the Cooperative Forestry Assistance (CFDA #10.664) program does not meet the major program threshold.

Dollar threshold used to  
distinguish between Type A and  
Type B programs: \$12,633,931

Auditee qualified as low-risk  
auditee? No

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section II – Financial Statement Findings**

**Finding 1-1:** Various Federal Agencies  
CFDA # Various

**Criteria:** Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Teachers' Retirement Board (board) policy states, "whenever the amortization period of the unfunded liabilities for two consecutive valuations are projected to exceed 30 years through the use of long term cash flow projections, and the board cannot reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the board to recommend to the legislature that funding be increased."

**Condition:** The board has obtained an actuarial valuation of the Teachers' Retirement System annually for the last two years. The actuarial valuation dated July 1, 2004, determined the employer contribution rate would have to increase by 2.87 percent starting July 1, 2005, to maintain an amortization of the unfunded actuarial accrued liability over the 30-year period starting July 1, 2004. The board also obtained an actuarial evaluation of the Montana University System (MUS) participation in the system. The actuary determined the contribution rate needs to increase by 3.19 percent to amortize the past service liability of the MUS members by July 1, 2033, if the 1.5 percent Guaranteed Annual Benefit Adjustment (GABA) is included. The rate needs to increase by 1.05 percent if the GABA is excluded. The results of the July 1, 2005 actuarial valuation show the system is not funded on an actuarially sound basis. The actuarial valuation dated July 1, 2005, determined the employer contribution rate will have to increase by 4.06 percent starting July 1, 2006, to maintain an amortization of the unfunded actuarial accrued liability over the 30-year period starting July 1, 2005.

**Questioned Costs:** No questioned costs identified.

**Context:** The unfunded actuarial accrued liability grew from \$383.5 million at July 1, 2002, to \$757.8 million at July 1, 2004, and then to \$903.3 million at July 1, 2005. The system's net assets at June 30, 2004, were \$2.4 billion and \$2.5 billion at June 30, 2005. During the 2005 Legislative Session the board sought legislation to increase the funding and no legislation was passed.

**Effect:** Until contribution rates are statutorily changed, the system is actuarially unsound. If the \$131 million in actuarially unrecognized asset losses that occurred by June 30, 2004, are not offset by future gains, the amortization period of the unfunded actuarial accrued liability in future valuations will fall outside the measures accepted as financially sound, even with the actuarially determined rate increases. The 2005 actuary report determined, at the current contribution rate, the system will never be sound.

**Cause:** The actuary attributed the growth in the unfunded liability of the system to actuarial investment returns below the actuarial investment return assumption of eight percent. As a result, the contribution rates established in state law are insufficient to provide for the actuarial soundness of the system.

**Recommendation:** We recommend legislation be enacted to provide funding to ensure the Teachers' Retirement System is funded on an actuarially sound basis, as required by board policy and the Montana Constitution.



**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section II – Financial Statement Findings**

**Finding 1-2:** Various Federal Agencies  
CFDA # Various

**Criteria:** Article VIII, Section 15, of the Montana Constitution requires public retirement systems be funded on an actuarially sound basis. Public Employees' Retirement Board (PERB) policy states, "whenever, through the use of long-term cash flow projections, the amortization period of a system's unfunded liabilities is projected to exceed 30 years for two consecutive valuations and the board cannot reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of PERB to recommend to the legislature that funding be increased."

**Condition:** The PERB obtained an actuarial valuation of the eight defined benefit retirement plans annually for the last two years. The actuarial valuation determined as of July 1, 2004, the employer contribution rate would have to increase, starting July 1, 2005, by 1.19 percent for the Public Employees' Retirement System-Defined Benefit Retirement Plan (PERS-DBRP), 2.15 percent for the Sheriffs' Retirement System (SRS), and 0.23 percent for the Game Wardens' and Peace Officers' Retirement System (GWPORS), to maintain an amortization of the unfunded actuarial accrued liability for each system over the 30-year period, starting July 1, 2004. The July 1, 2005, valuation determined the employer contribution rate would have to increase, starting July 1, 2006, by 1.58 percent for the PERS-DBRP, 2.69 percent for the SRS, and 0.26 percent for the GWPORS, to maintain an amortization of the unfunded actuarial accrued liability for each system over the 30-year period starting July 1, 2005.

**Questioned Costs:** No questioned costs identified.

**Context:** The unfunded actuarial accrued liability grew from July 1, 2002, to July 1, 2005, as follows: from \$1 million to \$522.6 million for PERS-DBRP, from \$(17) million to \$10.9 million for SRS, and from \$0.4 million to \$5.5 million for GWPORS. Net assets at June 30, 2004, and 2005, respectively, were \$3.0 billion and \$3.2 billion for PERS-DBRP, \$140.5 million and \$151.4 million for SRS, and \$45.2 million and \$51.8 million for GWPORS. During the 2005 Legislative Session PERB sought legislation to increase the funding and no legislation was passed.

**Effect:** Until contribution rates are statutorily changed, the PERS-DBRP, SRS and GWPORS are actuarially unsound. If the actuarially unrecognized asset losses that occurred by June 30, 2005, are not offset by future gains, the amortization period of the unfunded actuarial accrued liability in future valuations will fall outside the measures accepted as financially sound, even with the actuarially determined rate increases.

**Cause:** The actuary attributed the growth in the unfunded liabilities of the systems primarily to actuarial investment returns below the actuarial investment return assumption of eight percent for all three systems. As a result, the contribution rates established in state law are insufficient to provide for the actuarial soundness of each system.

**Recommendation:** We recommend legislation be enacted for funding changes to ensure the PERS-DBRP, SRS, and GWPORS are funded on an actuarially sound basis, as required by the Montana Constitution and state law.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-1:** U.S. Department of Homeland Security  
CFDA #97.004, State Domestic Preparedness Equipment Support Program

**Criteria:** Program regulations for the Department of Homeland Security/Office of Domestic Preparedness (ODP) grants require a program report to be completed and submitted within 30 days of the months ending June and December.

**Condition:** The Department of Military Affairs (department) is responsible for the program reports. Federal ODP staff conducted a program review of the grant in May of 2004, and noted three program reports due January 30, 2004, had not been received. We inquired as to the status of the reports, and found the reports had not been completed, and the three reports due July 30, 2004, had also not been completed.

**Questioned Costs:** No questioned costs identified.

**Context:** The department was required to prepare and file six program reports for fiscal year 2003-04.

**Effect:** The department is not in compliance with federal reporting regulations.

**Cause:** Department personnel indicated allocation of staff time to conduct other grant activities did not allow time to get the program reports filed.

**Recommendation:** We recommend the Department of Military Affairs submit required program reports when due in accordance with federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-2:** U.S. Department of Homeland Security  
CFDA #97.046, Fire Management Assistance Grant

**Criteria:** OMB Circular A-87, Attachment A, Section C(1)(j), requires the Department of Natural Resources and Conservation (department) have adequate documentation for costs to be considered allowable.

**Condition:** We identified nine fire meal payments, totaling \$1,387, that were paid with limited documentation, and four of these, totaling \$317, were submitted for federal reimbursement.

**Questioned Costs:** We question \$317 in costs charged to the Fire Management Assistance Award, but believe potential questioned costs for this award could exceed \$10,000.

**Context:** The department expended approximately \$79 million in fiscal year 2003-04 in wildfire suppression activities. At June 30, 2004, department personnel estimated \$32.1 million of the total fire suppression costs were eligible for federal reimbursement.

**Effect:** Payments are not supported and are, therefore, unallowable per federal regulations.

**Cause:** Department personnel believe these issues resulted from the extreme nature of the 2003 fire season. In response to these issues, department personnel established new procedures related to meals and payment of invoices, and also provided additional training to employees regarding proper documentation and meal limits.

**Recommendation:** We recommend the Department of Natural Resources and Conservation clarify and enforce its policy regarding the review, approval, and processing of claims.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-3:** U.S. Department of Housing and Urban Development  
CFDA #14.246, Community Development Block Grants/Brownfields Economic  
Development Initiative

U.S. Department of Education  
CFDA #84.352, Grants for School Repair and Renovation

**Criteria:** The Department of Administration's Architecture and Engineering Division (division) administers state construction projects for various state agencies. Federal regulation, 29 CFR 5.5, implements the federal Davis-Bacon Act. It requires the contractor to submit a copy of the weekly payroll and a statement of compliance with federal prevailing wage requirements to the division for each week in which any contract work is performed.

**Condition:** The division did not collect certified weekly payroll for three projects with federal funding during fiscal years 2002-03 and 2003-04.

**Questioned Costs:** We question \$251,098 of costs charged in fiscal years 2002-03 and 2003-04; \$24,157 to CFDA #84.352 and \$226,941 to CFDA #14.246.

**Context:** There were 28 projects that received federal funds during fiscal years 2002-03 and 2003-04. The division did not have weekly certified payrolls for three of these projects.

**Effect:** The division did not comply with federal regulations, resulting in questioned costs.

**Cause:** The project managers were aware of the prevailing wage requirements, but not all of them were aware that the division needed to receive copies from the contractor. Department personnel said it is the responsibility of the state agency initiating the construction to inform the division of the applicable federal requirements.

**Recommendation:** We recommend the Department of Administration collect certified weekly payrolls for projects subject to the federal Davis-Bacon Act in accordance with federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-4:** U.S. Department of Transportation  
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While  
Intoxicated

**Criteria:** The Department of Administration's Information Technology Services Division (ITSD) entered into two agreements with the Montana Department of Transportation, Traffic Safety Bureau, for work on Public Safety Radio Projects. The agreements identified the source of funds as federal funds from the U.S. Department of Transportation, National Highway Traffic Safety Administration. The agreements noted ITSD was subject to compliance with applicable state and federal laws and regulations. OMB Circular A-87, Attachment A, Section E(2)(a), states that compensation of employees is allowable for the time devoted and identified specifically to the performance of an award. OMB Circular A-87, Attachment A, Section C(1)(j) requires costs be adequately documented to be allowable.

**Condition:** We found controls were not adequate to ensure all expenditures incurred by ITSD on the Public Safety Radio projects were in compliance with state and federal regulations. We identified \$97,017 of unallowable personal services and \$9,701 in associated indirect cost recoveries. We also identified \$3,895 of expenditures containing inadequate documentation and \$1,539 in expenditures prohibited by provisions of the grant agreement.

**Questioned Costs:** We question costs of \$112,152 charged to CFDA #20.608.

**Context:** Total grant expenditures from June 2002 through September 2003, were \$300,872.

**Effect:** The department did not comply with federal regulations, resulting in questioned costs.

**Cause:** Department personnel stated ITSD personnel had no prior knowledge, training, or experience with federal grant programs or related compliance items.

**Recommendation:** We recommend the Department of Administration implement controls to ensure federal funds are expended in compliance with state and federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-5:** U.S. Department of Justice  
CFDA #16.710, Public Safety Partnership and Community Policing Grants

U.S. Department of Transportation  
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While  
Intoxicated

**Criteria:** OMB Circular A-87, Attachment A, Section C(1)(c), indicates that to be allowable, a cost must be authorized or not prohibited under state or local laws or regulations. Montana Operations Manual, Volume 1, Chapter 300, outlines state travel policy.

**Condition:** We found travel reimbursement vouchers completed incorrectly by the Department of Administration's Information Technology Services Division (ITSD) employees. We noted several items where the support was not adequate to show the expenditure was related to the federal grant. These items charged to federal funds were not documented as required by state policy. Because they are not in compliance with state policy, they are also not allowable charges to federal grants.

**Questioned Costs:** We question costs of \$546 to CFDA #16.710 and \$11,416 to CFDA #20.608 for federal fiscal years 2001-02 and 2002-03.

**Context:** There was a consistent lack of documentation.

**Effect:** The department did not comply with federal grant regulations, resulting in questioned costs.

**Cause:** Department personnel stated ITSD personnel had no prior knowledge, training, or experience with federal grant programs or related compliance items.

**Recommendation:** We recommend the Department of Administration require employees to properly complete travel vouchers in accordance with state policy.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-6:** U.S. Department of Transportation  
CFDA #20.607, Alcohol Open Container Requirements  
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While  
Intoxicated

**Criteria:** OMB Circular A-87, Attachment A, Section C(1)(d), says that to be allowable, costs must conform to federal laws and terms and conditions of the federal award. The Highway Safety Grant Management Manual Part III, Section (A)(2), states that construction or reconstruction of permanent facilities is not an allowable activity. Under 23 CFR 1200.21(d), in order to purchase equipment with a useful life of more than one year and an acquisition cost of \$5,000, prior written approval must be obtained from the approving federal official.

**Condition:** The Montana Department of Transportation subgranted a portion of the award to the Department of Justice Highway Patrol Division (division). The award is to provide a coordinated national highway safety program to reduce traffic accidents, deaths, injuries, and property damage. The division was responsible for purchasing equipment and expending the grant funds on behalf of the Mobile Data Communications System Task Force, a non-state entity. Neither the Department of Transportation nor the division obtained approval for award expenditures totaling \$214,584 for the construction of towers and \$1,392,098 in equipment purchases charged to the award in fiscal year 2003-04.

**Questioned Costs:** We question costs of \$1,058,274 charged to CFDA #20.607 and \$548,408 charged to CFDA #20.608.

**Context:** Total award expenditures from May 2002 to October 2003 were \$3,913,690.

**Effect:** The division is not in compliance with federal award requirements, resulting in questioned costs.

**Cause:** Highway Patrol Division personnel did not consider the division to be the recipient of the award and spent the funds as the task force requested.

**Recommendation:** We recommend the Department of Justice ensure all State and Community Highway Safety grant expenditures are allowable per the grant agreement and federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-7:** U.S. Department of Agriculture  
CFDA #10.665, Schools and Roads – Grants to States

**Criteria:** The State Auditor's Office (office) is the pass-through agency for the federal forest reserve program. OMB Circular A-133, Subpart D, Section .400(d), requires a pass-through entity be responsible for ensuring the subrecipients take timely and appropriate action on all audit findings.

**Condition:** The program shares receipts from the national forests with the states in which these forests are situated. Under state law, these receipts, and interest earned on the balance, must be distributed to the counties. Because the office is the pass-through agency for these funds, it is responsible for monitoring the forest receipts disbursed to the counties. Independent auditors were hired to perform audits of counties that receive these funds. Any findings related in these audit reports are communicated each quarter to the agency responsible for the program audited. Between July 2003 and August 2005, the office was notified of six findings related to the federal forest reserve program. The office did not perform any follow up with the counties on these findings.

**Questioned Costs:** No questioned costs identified.

**Context:** The office did not follow up on the six findings communicated to them between July 2003 and August 2005.

**Effect:** The office is not in compliance with federal subrecipient monitoring requirements.

**Cause:** Office personnel indicated they are required to distribute funds under state law and cannot withhold funds for non-compliance with either state or federal laws. Because the office lacks this capability, it does not follow up on findings communicated from local government audits.

**Recommendation:** We recommend the State Auditor's Office follow up on local government audit findings communicated to the office, as required by federal subrecipient monitoring requirements.



**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2005**

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-8:** U.S. Department of Agriculture  
CFDA #10.664, Cooperative Forestry Assistance

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. Federal regulation, 7 CFR 3016.20(a), requires fiscal control and accounting procedures must be sufficient to permit preparation of reports required, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

**Condition:** The control procedures used by the department resulted in co-mingled state and federal expenditures in fiscal years 2001-02 through 2003-04. The department uses multiple accounting cost centers to account for Cooperative Forestry Assistance (CFA) award expenditures. The expenditures recorded in these cost centers are not limited to CFA federal expenditures, and also include state funds. In addition, three of the cost centers used in fiscal year 2003-04 also contained other federal award activity. We were unable to isolate fiscal year 2003-04 CFA award expenditures. Improvements were made in the control procedures in fiscal year 2004-05; but multiple accounting cost centers were still used.

**Questioned Costs:** No questioned costs identified.

**Context:** The department expended \$2,419,204 in fiscal year 2001-02; \$2,788,581 in fiscal year 2002-03; \$1,841,499 in fiscal year 2003-04; and \$3,475,472 in fiscal year 2004-05, under this award.

**Effect:** We believe the structure of the financial records impairs the department's ability to prepare accurate financial reports (finding 2-12) and demonstrate proper management of the funds.

**Cause:** Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

**Recommendation:** We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-9:** U.S. Department of Agriculture  
CFDA #10.664, Cooperative Forestry Assistance

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. Federal regulation, 7 CFR 3016.20(b)(7), requires the department to establish cash management procedures to minimize the time between the transfer of funds from the U.S. Treasury and the related disbursement.

**Condition:** Department personnel were unable to provide documentation demonstrating the weekly review of cash balances occurred or adequate controls over compliance with this requirement existed. We noted lack of consistency with cash draws and little correlation between the amount drawn and the related expenditure activity. There were also several instances where the department did not minimize the time elapsing between the transfer of funds from the U.S. Treasury and the related disbursements. In fiscal year 2003-04, four cash draws totaling \$2,259,968 were made in August, September, and December 2003. No additional draws occurred after December 2003, even though the department continued to incur expenditures.

**Questioned Costs:** No questioned costs identified.

**Context:** The department expended \$1,841,499 in fiscal year 2003-04 under this award.

**Effect:** The department did not have adequate internal control to ensure compliance with federal requirements.

**Cause:** Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

**Recommendation:** We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-10:** U.S. Department of Agriculture  
CFDA #10.664, Cooperative Forestry Assistance

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. The Cooperative Forestry Assistance award provides resources for local firefighting organizations submitting grant proposals to the department. According to the Volunteer Fire Assistance Program Desk Guide, only local firefighting organizations serving communities with a population under 10,000 are eligible for these funds.

**Condition:** Department personnel have no documentation demonstrating local firefighting organization eligibility was considered in the subgrant approval process during fiscal year 2003-04.

**Questioned Costs:** No questioned costs identified.

**Context:** The department expended \$1,841,499 in fiscal year 2003-04 under this award.

**Effect:** The department did not comply with federal regulations. We did not identify ineligible firefighting organizations, but the potential exists for an ineligible organization to receive funds.

**Cause:** Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

**Recommendation:** We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

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**Finding 2-11:** U.S. Department of Agriculture  
CFDA #10.664, Cooperative Forestry Assistance

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. The grant agreement requires the department to match federal funds with state funds in administering this award.

**Condition:** Our review of the fiscal year 2003-04 accounting records indicated the department complied with this matching requirement. However, the department was unable to demonstrate they reviewed expenditures on the primary accounting records or summary reports to ensure compliance with federal regulations. No significant improvements were made in the control procedures in fiscal year 2004-05.

**Questioned Costs:** No questioned costs identified.

**Context:** The department's expenditures under this award were \$1,841,499 in fiscal year 2003-04, and \$3,475,472 in fiscal year 2004-05.

**Effect:** The department did not have adequate internal controls to determine compliance with federal requirements.

**Cause:** Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

**Recommendation:** We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-12:** U.S. Department of Agriculture  
CFDA #10.664, Cooperative Forestry Assistance

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Natural Resources and Conservation (department) to maintain adequate internal control that provides reasonable assurance a federal award is managed in compliance with laws, regulations, and the provisions of the grant agreements that could have a material effect on the award. Federal regulation, 7 CFR 3016.41, together with the grant agreement, require the department to submit financial status reports on a quarterly basis.

**Condition:** Department personnel were unable to describe the control procedures used to ensure these reports are prepared and submitted as required, and no one was responsible for reviewing and approving these reports. No financial reports were prepared or submitted in fiscal year 2003-04.

**Questioned Costs:** No questioned costs identified.

**Context:** The department was required to prepare and file eight financial status reports for fiscal year 2003-04.

**Effect:** The department did not comply with federal regulations and reporting requirements.

**Cause:** The employee in charge of completing the reports no longer works for the department. Department personnel indicated employee turnover and growth in complexity and size of the award over time impacted their ability to administer this award in accordance with federal laws and regulations.

**Recommendation:** We recommend the Department of Natural Resources and Conservation establish, document, and monitor internal control over compliance with requirements for the Cooperative Forestry Assistance federal award.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-13:** U.S. Department of Agriculture  
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants,  
and Children

**Criteria:** Federal regulation, 7 CFR 246.12(q), requires the Department of Public Health and Human Services (department) to account for the disposition of all food instruments as either issued or voided, and as either redeemed or unredeemed.

**Condition:** The department contracts with local organizations that determine eligibility of participants and issue food instruments to clients. These local organizations submit receipts for voided or reissued food instruments. Department personnel match the information provided on the receipts to a daily report of voided and reissued food instruments to detect instances where clients receive more benefits than allowed. From June 2004 to May 2005, the department did not complete this review process. In two previous audits, we recommended the department complete and document review of food instrument reports.

**Questioned Costs:** No questioned costs identified.

**Context:** Award expenditures were \$13,567,700 in fiscal year 2003-04 and \$13,868,232 in fiscal year 2004-05.

**Effect:** The department did not comply with federal regulations. The potential exists for the inappropriate issuance of duplicate food instruments to occur and remain undetected.

**Cause:** Department personnel staff indicated the procedure to check for voided or reissued vouchers had not been conducted because the process is time consuming and the person assigned the task had been out of the office on medical leave for a portion of the year.

**Recommendation:** We recommend the Department of Public Health and Human Services complete and document reviews of voided and reissued food instruments.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-14:** U.S. Department of Agriculture  
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

**Criteria:** Federal regulation, 7 CFR 246.19(b), requires the Department of Public Health and Human Services (department) to establish an ongoing management evaluation system. The system is to include monitoring of local agency operations, review of local agency financial and participation reports, development of corrective action plans to resolve deficiencies, monitoring the implementation of corrective action plans, and on-site visits. The department is to conduct a review of each local agency at least once every two years. Each review must include on-site reviews of at least 20 percent of each local agency's clinics. The department must promptly notify the local agency of any findings. Department policy requires the monitoring report be provided to the local agencies within 60 days. The department must require the submission of a corrective action plan within 60 days of receipt of the report.

**Condition:** The department's monitoring log showed 32 monitoring visits were completed. For these 32 visits, 19 reports were completed and sent to the local agency for corrective action, two reports were in process, and 11 reports had not been completed or sent to the local agency for corrective action. Of the 19 completed reports, only 11 were submitted to the local agency within 60 days of the visit. Ten of the 11 incomplete reports were missing information from a portion of the review. The department did not review financial reports or evaluate financial management systems at any of the 32 on-site reviews. We reviewed files related to 10 local agency monitoring visits, of which seven conducted clinics. We determined the department did not perform the required number of on-site clinic reviews as part of the local agency review.

**Questioned Costs:** No questioned costs identified.

**Context:** Award expenditures were \$13,567,700 in fiscal year 2003-04 and \$13,868,232 in fiscal year 2004-05.

**Effect:** The department did not comply with federal regulations.

**Cause:** Department personnel indicated changing priorities affected the timeliness of report completion. Financial reports and financial management systems were not reviewed because the department decided to focus more on other elements of the reviews. Department staff indicated scheduling clinic visits during a monitoring review is difficult because clinics in Montana are open only a few days each month and separate trips to review the clinics are costly to the program.

**Recommendation:** We recommend the Department of Public Health and Human Services:

- A. Promptly notify a local agency of any finding identified during a monitoring review, in accordance with federal regulations.
- B. Review local agency financial reports and evaluate financial management systems during monitoring reviews, in accordance with federal regulations.
- C. Perform reviews of nutrition clinics in each local agency in accordance with federal regulations.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-15:** U.S. Department of Agriculture  
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants, and Children

**Criteria:** Federal regulation, 7 CFR 246.19(b)(4), requires the Department of Public Health and Human Services (department) to notify a local agency of any findings resulting from a monitoring review. The department must require the local agency to submit a corrective action plan within 60 days of receipt of the department's report.

**Condition:** The department does not track local agency submission of corrective action plans developed in response to findings from monitoring reviews.

**Questioned Costs:** No questioned costs identified.

**Context:** During our audit, the department sent 19 monitoring review reports to the local agencies requiring corrective action plans. At the time of our review, nine corrective action plans were received and approved, one was received but not approved, two were not yet due, and seven were not received within 60 days.

**Effect:** The department did not comply with federal regulations.

**Cause:** Department personnel indicated they previously tracked the receipt of all corrective action plans, but the position responsible for the tracking had been vacant for some time.

**Recommendation:** We recommend the Department of Public Health and Human Services obtain corrective action plans from the local agencies within 60 days of the date the findings reports were received by the local agencies.



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**Finding 2-16:** U.S. Department of Agriculture  
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants,  
and Children (WIC)

**Criteria:** Federal regulation, 7 CFR 246.12(j), requires the Department of Public Health and Human Services (department) to design and implement a system for monitoring WIC vendors for compliance with program requirements. The department must conduct routine monitoring visits on a minimum of five percent of the authorized vendors, concentrating on high-risk vendors. The department must also identify high-risk vendors at least once a year based on criteria developed by the department.

**Condition:** Although the department has responded to complaints about certain vendors, it has not conducted compliance investigations or assessed the risk on non-compliance by vendors.

**Questioned Costs:** No questioned costs identified.

**Context:** Of the 235 active WIC vendors, a minimum of 12 must be reviewed each year.

**Effect:** The department did not comply with federal regulations.

**Cause:** Department personnel indicated they lack the staff resources to perform the vendor compliance investigations.

**Recommendation:** We recommend the Department of Public Health and Human Services conduct annual compliance investigations of WIC vendors as required by federal regulations.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-17:** U.S. Department of Agriculture  
CFDA #10.557, Special Supplemental Nutrition Program for Women, Infants,  
and Children (WIC)

**Criteria:** Federal regulation, 7 CFR 246.7(l), places responsibility for the prevention and identification of dual participation on the Department of Public Health and Human Services (department). The department is required to take action to identify suspected instances of dual participation at least semiannually.

**Condition:** Existing procedures specify the department will prepare a report from its records on a monthly basis to identify WIC clients certified to receive benefits more than once during the month being reviewed. We determined the department did not follow these procedures during the audit period. This issue was also addressed in our previous audit.

**Questioned Costs:** No questioned costs identified.

**Context:** During the two fiscal years ended June 30, 2005, the department ran and reviewed the WIC reports in eight out of 24 months. No reports have been reviewed since May 2004.

**Effect:** The department did not comply with federal regulations, which raises the risk that clients receiving WIC benefits more than once a month will not be detected.

**Cause:** Department personnel cited time constraints and frustration with the computer system used to track program activity as the reason the reports were not reviewed.

**Recommendation:** We recommend the Department of Public Health and Human Services run and review its WIC dual certification report monthly to detect dual participation by clients.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-18:** U.S. Department of Agriculture  
CFDA #10.558, Child and Adult Care Food Program

**Criteria:** Federal regulation, 7CFR 226.6(b), requires the Department of Public Health and Human Services (department) to establish an application procedure to determine eligibility of participating institutions and facilities. January 2004 federal regulation, 7 CFR 226.15(b)(2), and January 2005 federal regulation, 7 CFR 226.15(e)(1), require the application to be accompanied by all supporting documentation. Department policy requires a checklist be placed in the file to log the receipt of the application documentation.

**Condition:** The department's documentation of provider eligibility is incomplete for the Child and Adult Care Feeding Program.

**Questioned Costs:** No questioned costs identified.

**Context:** Of 15 application files reviewed, six did not contain the checklist required by department policy. Of six feeding center files reviewed, evidence of a review of the sample menu was missing in two.

**Effect:** Increased risk of noncompliance with federal and state eligibility requirements.

**Cause:** Department personnel said staff turnover occurred and new staff had not realized that the checklists should be placed in the file with the application. Some personnel did not know that menus reviewed during the application process should be retained.

**Recommendation:** We recommend the Department of Public Health and Human Services file checklists and application documentation in the Child and Adult Care Feeding Program provider files in accordance with state and federal regulations.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-19:** Various Federal Agencies  
CFDA #Various

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Public Health and Human Services (department) to maintain control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and grant provisions. The March 2004 Compliance Supplement, page 3-I-1, prohibits the department from contracting with parties that are suspended or debarred from participating in federal programs. The May 2005 Compliance Supplement did not modify this requirement. The department adopted a policy to prevent contracting with parties that have been suspended and debarred. The policy specifies that department contract managers are to sign and date a form certifying the official federal listing of debarred parties was reviewed prior to executing the contract.

**Condition:** The department did not implement procedures designed to prevent it from contracting with suspended or debarred parties. Contractor files lack documentation that staff checked the federal debarred party website prior to executing a contract.

**Questioned Costs:** No questioned costs identified.

**Context:** None of the 15 contract files reviewed contained the required certification form.

**Effect:** The department is at risk of contracting with a suspended or debarred party.

**Cause:** Although the department adopted its policy in March 2003, department personnel have not implemented it.

**Recommendation:** We recommend the Department of Public Health and Human Services implement its policy to prevent contracting with parties that have been suspended and debarred from participating in federal programs.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-20:** U.S. Department of Health and Human Services  
CFDA #93.778, Medical Assistance Program

**Criteria:** The March 2004 Compliance Supplement, page 4-93.778-8, indicates to be allowable, medical service costs paid by the Department of Public Health and Human Services (department) must be covered by its state plan and waivers. The May 2005 Compliance Supplement did not modify this language. Medical service costs must also be for allowable services rendered, supported by medical records or other evidence indicating the service was actually provided and was consistent with the medical diagnosis.

**Condition:** Disability services facilities contract with the department to provide services to Medicaid eligible recipients. These providers bill the department monthly for services performed. The department provides a form to each provider for identifying the units of service provided to each client. Department management indicated its regional administrative assistants verify and authorize these provider submitted invoices. Quality improvement specialists are also responsible for verifying invoices during monitoring reviews. We determined, however, that the department's subsequent review of completed billing invoices does not consistently include verification of the quantity of services billed.

**Questioned Costs:** No questioned costs identified.

**Context:** We contacted each of the five regional administrative assistants; only one performs a verification of the provider invoice. We also contacted five of the 16 quality improvement specialists, responsible for performing quality assurance reviews. Only one of the five quality improvement specialists we contacted verifies invoices as part of a monitoring review.

**Effect:** The potential exists for unallowable costs to be incurred by the department and not be detected in a timely manner.

**Cause:** The quality improvement specialists we contacted were unaware that invoice verification was to be completed as part of the review. The regional administrative assistants do not receive supporting documentation from the provider that would allow for invoice verification.

**Recommendation:** We recommend the Department of Public Health and Human Services communicate management's expectations regarding disability services provider invoice reviews to regional administrative assistants and quality improvement specialists.

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**Finding 2-21:** U.S. Department of Health and Human Services  
CFDA #93.778, Medical Assistance Program

**Criteria:** The Medicaid state plan and state regulations require the inpatient hospital facilities to file cost reports with the Department of Public Health and Human Services (department) and the Montana Medicare intermediary within 150 days of the facility's fiscal year-end.

**Condition:** The department does not have a mechanism to determine whether inpatient hospitals submit cost reports in a timely manner. Department procedures do not include logging the date on which the department receives cost reports from the providers, so the department does not document whether hospitals submit cost reports within 150 days.

**Questioned Costs:** No questioned costs identified.

**Context:** In fiscal year 2003-04, five inpatient hospital facilities did not submit cost reports within the 150-day requirement. Although the cost reports were due in October and November of 2004 and February of 2005, the facilities had not submitted the reports as of May 2005.

**Effect:** The department is unable to ensure compliance with state policy and the Medicaid state plan.

**Cause:** The department employee responsible for reviewing the cost reports said the review schedule often lags several months behind the due date, so late reports have not delayed the reviews.

**Recommendation:** We recommend the Department of Public Health and Human Services develop procedures to document the receipt of cost reports to achieve compliance with state regulations and the approved state Medicaid plan.

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**Finding 2-22:** U.S. Department of Health and Human Services  
CFDA #93.778, Medical Assistance Program

**Criteria:** Section 1927 of the Social Security Act allows the Department of Public Health and Human Services (department) to obtain rebates for drug purchases reimbursed by Medicaid. The March 2004 Compliance Supplement, page 4-93.778-12, requires the department to provide drug utilization data to drug manufacturers no later than 60 days after the end of each quarter so the drug rebate can be calculated. The May 2005 Compliance Supplement did not modify this requirement.

**Condition:** The department does not consistently provide manufacturers with drug utilization data within the 60-day requirement. The data is normally provided to manufacturers between 60 and 70 days after the end of each quarter.

**Questioned Costs:** No questioned costs identified.

**Context:** This is a systemic problem; department officials indicated the department has never been able to consistently meet the 60-day submission requirement.

**Effect:** The department's delayed submission of the drug utilization data to the manufacturers delays receipt of rebates from the manufacturers.

**Cause:** A department official said the rebate data sent to drug manufacturers depends on drug pricing information provided by the federal government that usually arrives 45 days after the end of the quarter. This compresses the remaining tasks involved in preparing the drug utilization data into a two-week period.

**Recommendation:** We recommend the Department of Public Health and Human Services provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulation.

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**Finding 2-23:** U.S. Department of Health and Human Services  
CFDA #93.658, Foster Care - Title IV-E

**Criteria:** Federal regulation, 45 CFR 1356.21(b)(2)(i), requires the Department of Public Health and Human Services (department) to finalize a permanency placement plan through a formal hearing process within 12 months of the date a child enters the foster care program. The department must re-evaluate the permanency placement plan at least once every 12 months as long as the child remains in the foster care program.

**Condition:** The department did not consistently ensure permanency placement hearings were completed timely. Therefore, ineligible children received foster care assistance.

**Questioned Costs:** We question \$205,870 charged to the Foster Care - Title IV-E award for assistance provided to ineligible children.

**Context:** We reviewed 45 case files for compliance with eligibility requirements and identified 18 eligibility errors caused by late placement hearings.

**Effect:** The department did not comply with federal regulations, which resulted in questioned costs.

**Cause:** Department personnel cited insufficient training in Title IV-E requirements for social workers and scheduling conflicts with courts as key factors causing late permanency placement hearings. To address this, the department established a central staff group in December 2003 specifically trained to determine Title IV-E eligibility and monitoring Title IV-E compliance.

**Recommendation:** We recommend the Department of Public Health and Human Services continue to improve procedures to ensure permanency placement hearings occur as required by federal regulation.



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**Finding 2-24:** U.S. Department of Health and Human Services  
CFDA #93.658, Foster Care - Title IV-E

**Criteria:** The Title IV-E state plan requires the Department of Public Health and Human Services (department) to review client eligibility every 12 months, consistent with the requirements of 45 CFR 1356. The department's administrative rules require department personnel to re-determine client eligibility every 6 months.

**Condition:** The department did not conduct timely reviews of foster care client eligibility.

**Questioned Costs:** No questioned costs identified.

**Context:** We reviewed 45 case files, of which 39 were subject to the federally required annual review. Of the 39 files, 11 did not contain a timely annual eligibility review required by federal regulation. None had a six-month review required by the department's administrative rules. Continued eligibility was affirmed in each of the 11 cases during the subsequent eligibility review.

**Effect:** The department did not comply with federal regulations or its foster care eligibility re-determination policy.

**Cause:** Department management said they thought the six-month re-determination of eligibility rule had been repealed.

**Recommendation:** We recommend the Department of Public Health and Human Services:

- A. Establish procedures to review foster care case files as required by federal regulations,
- B. Comply with state administrative rule requiring eligibility review for foster care cases every six months.

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**Finding 2-25:** U.S. Department of Health and Human Services  
CFDA #93.658, Foster Care - Title IV-E

**Criteria:** Title IV, Part E, Section 474 of the Social Security Act entitles the Department of Public Health and Human Services (department) to use the Federal Medical Assistance Percentage (FMAP) to calculate the federal share of Title IV - E foster care benefits.

**Condition:** The FMAP rate changes each federal fiscal year. To eliminate the need to manually record the state and federal portions of foster care expenditures, the department programs the state's accounting system to record expenditure activity in the federal and state funds according to the FMAP rate. In sample testing, we noted transactions were posted to the state's accounting system between October 2003 and June 2004 at the wrong FMAP rate. In June 2004, department fiscal personnel manually adjusted the state's accounting records to properly reflect the federal fiscal year 2003-04 FMAP in the allocation of costs to federal and state funds.

**Questioned Costs:** No questioned costs identified.

**Context:** The use of the incorrect FMAP rate is considered an isolated incident. However, department officials rely on the foster care subsystem to allocate cost to funding sources in a manner that maximizes the use of non-General Fund money.

**Effect:** The potential exists for an incorrect FMAP rate to be used by the department, but not be detected in a timely manner.

**Cause:** We discovered the FMAP had been coded incorrectly on the department's subsystem used by the foster care program. In the interface between the subsystem and the state's accounting system, the funding split from the subsystem overrides FMAP coding in the state's accounting records. The department did not identify the cause of the error, since the FMAP for the period had been coded correctly on the state's accounting system.

**Recommendation:** We recommend the Department of Public Health and Human Services establish controls to ensure the federal share of foster care benefits is recorded at the correct rate on the foster care subsystem and on the state's accounting system.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-26:** U.S. Department of Education  
CFDA #84.126, Rehabilitation Services – Vocational Rehabilitation Grants to States

**Criteria:** Federal regulation, 34 CFR 80.20(a)(1), requires the Department of Public Health and Human Services (department) establish fiscal control and accounting procedures sufficient to permit preparation of reports required for the vocational rehabilitation program.

**Condition:** The department submits the RSA-2 Program Cost Report for the program each federal fiscal year. We noted that the federal fiscal year 2003-04 RSA-2 report was submitted with five line items reporting the same numbers as the federal fiscal year 2002-03 report.

**Questioned Costs:** No questioned costs identified.

**Context:** In our previous audit, we reported a similar error on the federal fiscal year 2001-02 report. The department prepared the federal fiscal year 2002-03 report correctly.

**Effect:** The errors totaled \$164,075 and netted to a \$92,226 overstatement of reported expenditures.

**Cause:** Department personnel said the federal fiscal year 2003-04 numbers were reported in error.

**Recommendation:** We recommend the Department of Public Health and Human Services implement a procedure to review the Vocational Rehabilitation RSA-2 report to ensure the correct expenditures are reported.

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**Finding 2-27:** U.S. Department of Education  
CFDA #84.126, Rehabilitation Services - Vocational Rehabilitation Grants to States

**Criteria:** Federal regulation, 34 CFR 361.64(a), requires the Department of Public Health and Human Services (department) to obligate each federal fiscal year's grant funds in the year of the award. Expenditures must be paid by the end of the subsequent year. Federal regulation, 34 CFR 76.707, indicates that if an obligation is for personal services by an employee of the state, the obligation is made when the services are performed.

**Condition:** We found the department charged vocational rehabilitation payroll expenditures to the federal fiscal year 2002-03 grant through the pay period ending February 21, 2004. For the federal fiscal year 2003-04 grant, payroll charges were recorded through the pay period ending February 21, 2005.

**Questioned Costs:** We question \$17,489 and \$1,780 in payroll costs charged to CFDA #84.126 in federal fiscal years 2002-03 and 2003-04, respectively.

**Context:** In our previous audit, we recommended the department limit payroll charges to those incurred within a grant period. The department responded by finding errors and posting adjustments to the accounting records later in the state fiscal year. However, the department did not correct the state's accounting records prior to filing the annual report.

**Effect:** Payroll expenditures were overcharged in federal fiscal years 2002-03 and 2003-04, resulting in questioned costs.

**Cause:** A department budget analyst said the department did not deactivate accounting system codes linking the payroll expenditure to the account for the previous year's federal grant. Consequently, these expenses could still post to the prior year grant. In addition, regional supervisors, who are required to review employee timesheets and accounts charged, did not detect the errors, the analyst said.

**Recommendation:** We recommend the Department of Public Health and Human Services charge payroll costs to the proper federal grant.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-28:** Various Federal Agencies  
CFDA #Various, Research and Development Cluster

**Criteria:** OMB Circular A-133, Subpart D, Section .400(d)(4), requires The University of Montana (university) to ensure subrecipients, expending federal awards in excess of certain limits during the subrecipient's fiscal year, have met the audit requirements for that fiscal year. The March 2004 Compliance Supplement, page 3-M-1, requires the university to perform procedures to provide reasonable assurance the subrecipient obtains required audits and takes appropriate action on audit findings. The May 2005 Compliance Supplement did not modify this requirement.

**Condition:** The University does not have adequate controls over subrecipient monitoring. University personnel only obtained the audit reports of subrecipients available at the time the subgrant agreement was signed.

**Questioned Costs:** No questioned costs identified.

**Context:** Subrecipient monitoring procedures for 15 of the University's 317 subrecipients were reviewed. In each instance controls were inadequate.

**Effect:** The potential exists for university personnel to be unaware of subrecipient noncompliance with federal regulations, including questioned costs.

**Cause:** University personnel obtain audit reports available at the time the subgrant agreement is signed. Subsequent reports are only obtained when a new agreement is negotiated.

**Recommendation:** We recommend The University of Montana establish additional internal controls to ensure compliance with federal regulations concerning subrecipient monitoring.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-29:** Various Federal Agencies  
CFDA #Various, Research and Development Cluster

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires The University of Montana (university) to maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. The grant agreements for individual federal research and development grants administered by the university require technical and performance reporting. The agreements state when the reports should be submitted.

**Condition:** The University does not have adequate controls to ensure compliance with technical and performance reporting requirements.

**Questioned Costs:** No questioned costs identified.

**Context:** Three of the 14 largest federal grants were reviewed for the completion of special tests and provisions, which consisted of technical and performance reporting requirements. In all three instances, reports were not submitted timely.

**Effect:** Untimely completion of technical and performance reports limits the university's ability to draw cash as soon as allowed.

**Cause:** In two instances, the Principle Investigators (PI) responsible for submitting the reports overlooked the deadline. In the third instance, the PI believed the report deadline had been extended when a new agreement was established.

**Recommendation:** We recommend The University of Montana establish additional internal controls to ensure compliance with federal regulations concerning technical and performance reporting.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-30:** Various Federal Agencies  
CFDA # Various, Research and Development Cluster

**Criteria:** The March 2004 Compliance Supplement, page 3-H-1, requires Montana State University (university) to liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. The May 2005 Compliance Supplement did not modify this requirement. University procedures require the use of a close-out checklist to ensure all grant agreement requirements have been met, all financial and technical reports were submitted, indirect costs were properly calculated, cost sharing was met, and accounting records were reconciled to the grant documentation.

**Condition:** The university did not comply with federal regulations or university policy related to liquidating all obligations and grant close-out.

**Questioned Costs:** No questioned costs identified.

**Context:** Of the 63 grants reviewed, one SF269 was submitted three months late and one grant was billed four months late. Also, five had incomplete grant close-out checklists.

**Effect:** There is increased risk the federal government will deny payment for expenditures that were allowable during the award period if reports are not submitted timely. Incomplete grant close-out checklists may result in grant accounts not being zeroed out when the grant is closed.

**Cause:** University personnel have improved controls and compliance with federal regulations since the last audit; however, they were not able to demonstrate compliance with all university control procedures and federal regulations.

**Recommendation:** We recommend Montana State University liquidate all grant obligations incurred under an award not later than 90 days after the end of the funding period and ensure the grant close-out checklist is complete.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-31:** U.S. Department of Housing and Urban Development  
CFDA #14.239, Home Investments Partnership Program

**Criteria:** OBM Circular A-133, Subpart C, Section .300(b), requires the Department of Commerce (department) to maintain internal control over federal programs that provides reasonable assurance the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The March 2004 Compliance Supplement, page 3-I-1, prohibits the department from contracting with parties that are suspended or debarred from participating in federal programs. The May 2005 Compliance Supplement did not modify this requirement.

**Condition:** The department does not have controls in place to ensure subgrantees are not debarred or suspended from participating in federal programs.

**Questioned Costs:** No questioned costs identified.

**Context:** During fiscal years 2003-04 and 2004-05, the department subgranted a total of \$5,259,412 to 14 local governments and \$4,029,409 to 10 non-profit organizations.

**Effect:** There is increased risk the department could subgrant to a debarred or suspended entity.

**Cause:** Department personnel stated they primarily grant funds to local governments and did not believe there was a risk these entities would be debarred or suspended. Personnel also noted the local governments and non-profit organizations have procedures in place to ensure recipients ultimately receiving the funds are not debarred or suspended.

**Recommendation:** We recommend the Department of Commerce develop and implement procedures to ensure it complies with federal requirements prohibiting contracting with suspended and debarred entities.



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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-32:** U.S. Department of Housing and Urban Development  
CFDA #14.228, Community Development Block Grants/State's Program

**Criteria:** Federal regulation, 24 CFR 91.520(a), requires the Department of Commerce (department) to annually report the resources made available, the investment of available resources, and the geographic distribution and location of investments on a performance report.

**Condition:** The department did not accurately prepare the Performance and Evaluation report.

**Questioned Costs:** No questioned costs identified.

**Context:** The reports due March 30, 2004 and 2005 contained a combined total of 469 lines. Of these, 31 lines reported the incorrect amount.

**Effect:** Noncompliance with federal reporting requirements.

**Cause:** Department personnel included transactions that should have been included on the previous or subsequent report in error.

**Recommendation:** We recommend the Department of Commerce accurately report current year distributions on the Community Development Block Grant Performance and Evaluation Report.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-33:** Various Federal Agencies  
CFDA # Various

**Criteria:** OMB Circular A-87, Attachment A, Section C(1)(c), indicates that to be allowable, costs must be authorized or not prohibited under state laws or regulations. State and Office of Public Instruction (office) travel policies provide rules and regulations related to per diem, lodging, transportation, and miscellaneous travel expenditures.

**Condition:** We reviewed 15 travel claims for meetings and conferences that office personnel attended during fiscal year 2004-05. We found that nine of the 15 claims, documentation attached was not always detailed enough at the time of payment to demonstrate compliance with state law and policy. We found instances where employees claimed meals when meals were provided as part of the conferences and employees claimed meals and lodging that, based on documentation, was not clearly during office time. In one instance, there was no receipt for a miscellaneous purchase over the \$25 limit. Policy allows employees to arrive early or stay later if they determine it is cost effective. We did not find documentation showing calculations of cost efficiency. Based on attached documentation we could not verify how the office had determined cost efficiency.

**Questioned Costs:** We question costs of \$841, but estimate potential questioned costs exceed \$10,000.

**Context:** The reimbursement requests contained in the vouchers totaled \$6,254, of which \$841 should not have been reimbursed.

**Effect:** The office does not have adequate controls in place to ensure travel claims are accurate and comply with state laws and policies, resulting in noncompliance with federal regulations.

**Cause:** Supervisors reviewing the documentation did not always review the claim thoroughly before approving it.

**Recommendation:** We recommend the Office of Public Instruction improve controls over travel expenditures to ensure it complies with state law and policy.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-34:** U.S. Department of Education  
CFDA #84.027, Special Education Grants to States  
CFDA #84.323, Special Education – State Personnel Development  
CFDA #84.348, Title I Accountability Grants

U.S. Department of Agriculture  
CFDA #10.553, 10.555, 10.559, Child Nutrition Cluster

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Office of Public Instruction (office) to maintain internal controls over federal programs that provides reasonable assurances that the office is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. OMB Circular A-133, Subpart C, Section .400(d)(3) and (4), requires the office to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and provisions of contracts or grant agreements and ensure subrecipients expending federal awards in excess of certain limits during the subrecipient's fiscal year have met audit requirements.

**Condition:** Office personnel manually create a list of entities other than school districts receiving federal funds as subrecipients. The procedures for compiling the list did not identify all subrecipients during the audit period.

**Questioned Costs:** No questioned costs were identified.

**Context:** The office monitors approximately 500 school districts and 50 other entities on an annual basis. The subrecipient lists did not include 10 subrecipient entities.

**Effect:** There is increased risk of the office not detecting noncompliance or questioned costs occurring at the subrecipient level.

**Cause:** Office personnel stated they were unable to query the state's accounting system to identify all subrecipients. Personnel also stated there could be timing differences between when the subgrantee list was compiled and when the subgrantee received funds.

**Recommendation:** We recommend the Office of Public Instruction improve controls over federal requirements related to subrecipient monitoring.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-35:** U.S. Department of Education  
CFDA #84.010, Title I Grants to Local Education Agencies  
CFDA #84.027, Special Education Grants to States  
CFDA #84.367, Improving Teacher Quality Grants

U.S. Department of Agriculture  
CFDA #10.555, National School Lunch Program

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), states the Office of Public Instruction (office) shall maintain internal controls over federal programs that provides reasonable assurances that the office is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. The Cash Management Improvement Act Treasury-State Agreement (CMIA), paragraph 8.1.2, requires the state to maintain information on disbursements and receipts of funds to verify the implementation of any funding technique and document interest liabilities. For each disbursement, the state shall be able to identify the amount of the issuance, date of issuance, date federal funds are received and credited to a state account, amount of federal funds received, and date funds were requested. Paragraph 6.3.2 identifies how the state should apply the funding techniques to the awards contained in the agreement and paragraph 6.2.2 describes the funding techniques.

**Condition:** The office did not comply with the CMIA Treasury-State agreement. The office made various errors including late draws, draws made as two draws rather than one, draws for more or less than expenditures incurred, and reported disbursements or receipts not tying to the accounting records for dates they occurred or amounts recorded.

**Questioned Costs:** No questioned costs were identified.

**Context:** The office received \$132,715,742 in federal revenues in fiscal year 2003-04, of which, \$94,634,017 related to programs covered under the CMIA. Fiscal year 2004-05 federal revenues were \$138,305,668, of which \$101,380,045 related to programs covered by the CMIA.

**Effect:** Noncompliance with the CMIA Treasury-State Agreement and increased risk of the state owing interest to the federal government.

**Cause:** The office cited various reasons for not complying with the CMIA, including efforts to minimize interest owed to the federal government, and they believed changes were made to the Treasury-State Agreement.

**Recommendation:** We recommend the Office of Public Instruction improve controls over federal requirements related to cash management.

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**Finding 2-36:** U.S. Department of Education  
CFDA #84.186, Safe and Drug-Free Schools and Communities – State Grants  
CFDA #84.298, State Grants for Innovative Programs  
CFDA #84.352, School Renovation Grants  
CFDA #84.367, Improving Teacher Quality State Grants

**Criteria:** Federal regulation, 34 CFR 85.305, states the Office of Public Instruction (office) cannot grant funds to an excluded (suspended and debarred) party, unless they have obtained an exception by the U.S. Department of Education.

**Condition:** The office relied on assurances from each subgrantee and did not verify the information through the federal suspended and debarred party list or other means. As a result, the office subgranted funds to a debarred and suspended party. The office did not obtain an exception from the U.S. Department of Education to do this.

**Questioned Costs:** We question costs of \$45 charged to CFDA #84.186, \$1,377 charged to CFDA #84.298, \$34,323 charged to CFDA #84.352, and \$454 charged to CFDA #84.367.

**Context:** The State of Montana has 345 administrative units within its public school districts. There is one operating school on the excluded party list.

**Effect:** The office was reimbursed by the federal government for unallowable expenditures.

**Cause:** The office obtained a form from the entity indicating they were not a suspended or debarred party, but did not verify the information.

**Recommendation:** We recommend the Office of Public Instruction improve controls over federal requirements related to suspended and debarred parties.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-37:** U.S. Department of Transportation  
CFDA #20.600, 20.602, 20.603, 20.604, 20.605, Highway Safety Cluster

**Criteria:** According to OMB Circular A-87, Attachment A, Section C(h) and (j), the Montana Department of Transportation (department) is required to have adequate documentation for costs to be considered allowable. In addition, costs must not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or a prior period. The department can use Montana Highway Patrol (MHP) expenditures above the 1997 level for state match.

**Condition:** Except for the Planning and Administration portion of the Highway Safety Cluster, the amounts claimed as match for the grant periods ending during our audit period were not supported. Department personnel told us the match amounts used were based on the amount of match needed per the National Highway Traffic Safety Administration Grant Tracking System and represented MHP expenditures from state funds. When we performed the audit the department did not have documentation as to what the 1997 MHP expenditure level was, what the total state MHP expenditures were for the grant period ending in state fiscal year 2003-04, and how much, if any, of the state's MHP expenditures were used as match for other federal assistance programs during the grant period ending in state fiscal year 2003-04.

**Questioned Costs:** We question costs of \$1,433,576 and \$1,366,787 in fiscal years 2003-04 and 2004-05, respectively.

**Context:** The match provided for the portions of the award requiring match, other than Planning and Administration, was not adequately supported.

**Effect:** Without support for the match, the department can't claim the federal expenditures, resulting in questioned costs.

**Cause:** Department personnel thought their documentation adequately supported the match. Also, not all the documentation requirements are addressed in the Highway Traffic Safety Program's procedures manual.

**Recommendation:** We recommend the Montana Department of Transportation:

- A. Evaluate, implement, and monitor compliance with control procedures to ensure compliance with federal requirements and Highway Traffic Safety Program policy.
- B. Document support for match claimed.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-38:** U.S. Department of Transportation  
CFDA #20.205, Highway Planning and Construction

**Criteria:** The Davis-Bacon Act requires the Montana Department of Transportation (department) pay wages to highway construction workers and mechanics at not less than the prevailing wage established by the U. S. Department of Labor. Federal regulation, 29 CFR 5.2, implementing the Davis-Bacon Act, requires any subcontract (at any level or tier) let under a prime contract be subject to those requirements. Department policy states, “Do not allow any Subcontractor to start work until its subcontract is approved by the construction engineer in Helena.” The department’s Construction Bureau documents its approval of a subcontractor by issuing a consent letter. The department’s Civil Rights Bureau (CRB) receives a copy of all subcontractor consent letters from the Construction Bureau.

**Condition:** The department’s policy on approving subcontracts to ensure all subcontractors comply with federal Davis-Bacon Act requirements for the Highway Planning and Construction Program is not clear. The department’s CRB is responsible for the department’s compliance with Davis-Bacon Act requirements. CRB personnel use the consent letters to identify which subcontractor payrolls they should expect to receive and to investigate if the payrolls have not been received. Since payrolls are received by CRB through the project engineers for all contractors and subcontractors, CRB may receive payrolls for subcontractors regardless of whether it has received a copy of the consent letter.

**Questioned Costs:** No questioned costs identified.

**Context:** Of seven active project files reviewed for fiscal years 2003-04 and 2004-05, two projects each had one subcontractor that was not approved. The Construction Bureau issued no consent letter for these subcontractors. A similar problem was noted in the prior audit.

**Effect:** The CRB may not be aware of all subcontractors working on a project. Without consent letters for all subcontractors, the CRB cannot identify missing payrolls and ensure compliance with Davis-Bacon Act requirements.

**Cause:** In September 2000, the Construction Bureau issued a memorandum to clarify when a subcontract must be submitted for approval. That memorandum stated, “Third, fourth, etc. tier subcontractors DO NOT need an approved contract.” Because policy is not clear regarding these requirements, the Construction Bureau does not issue consent letters for all subcontractors.

**Recommendation:** We recommend the Montana Department of Transportation clarify its policies on approving subcontracts to ensure compliance with federal Davis-Bacon Act provisions.

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**Finding 2-39:** U.S. Department of Transportation  
CFDA #20.205, Highway Planning and Construction

**Criteria:** The Cash Management Improvement Act (CMIA) Treasury-State Agreements for fiscal years 2003-04 and 2004-05 required the Montana Department of Transportation (department) to request funds on Wednesday each week for construction, consultant and payroll costs incurred the previous Wednesday through Tuesday.

**Condition:** The department did not request funds the first week of each month. There were often two draws performed in the second week of the month: one for the end of the previous month not covered by the last draw and one for the first through the current date of the new month. Department personnel said they sometimes draw for the end of the previous month earlier, but must draw for the end of the previous month separately from the beginning of the current month with the system they have.

**Questioned Costs:** No questioned costs identified.

**Context:** No cash draw requests for construction, consultant and payroll costs were made during the first week of each month in fiscal year 2004-05. We believe this issue existed in fiscal year 2003-04 as well. The costs incurred that should have been drawn during the first week of each month are typically smaller than for other weeks due to the timing of contractor payments and payroll.

**Effect:** The department lost an estimated \$17,673 in investment earnings during fiscal year 2004-05 as a result of not drawing federal funds in accordance with the CMIA agreement.

**Cause:** Department personnel stated the system they compile expenditure amounts from goes through a closing process each month. The system was not closed in time to complete a draw the first week of the month.

**Recommendation:** We recommend the Montana Department of Transportation establish management controls to ensure compliance with applicable federal cash management requirements.



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**Finding 2-40:** U.S. Department of Transportation  
CFDA #20.205, Highway Planning and Construction  
CFDA #20.607, Alcohol Open Container Requirements  
CFDA #20.608, Minimum Penalties for Repeat Offenders for Driving While Intoxicated

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Montana Department of Transportation (department) to maintain internal control over federal programs to provide reasonable assurance the department is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. OMB Circular A-87, Attachment A, Section C(a), requires costs be necessary and reasonable to be allowable.

**Condition:** The department charges projects for materials testing based on a rate calculated prior to the beginning of each fiscal year. For fiscal year 2004-05, the estimated Materials Bureau costs of \$1,672,494 were divided by estimated contractor payments of \$291,768,995 to obtain a materials testing rate of 0.57 percent. The department applied a 7.89 percent rate for materials testing to its projects, instead of the calculated 0.57 percent rate.

**Questioned Costs:** We question \$14.24 million in costs charged to CFDA #'s 20.205, 20.607 and 20.608 in fiscal year 2004-05.

**Context:** The department estimated \$1.67 million in materials testing costs in fiscal year 2004-05. The department collected approximately \$14.24 million more than it should have.

**Effect:** The department overbilled the federal government by \$14.24 million.

**Cause:** Department personnel believe this error occurred because of a lack of proper internal controls. The department has no procedures to ensure the rate input into the computer table used to charge projects for materials testing was the rate calculated and reviewed by department personnel.

**Recommendation:** We recommend the Montana Department of Transportation implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-41:** U.S. Department of Transportation  
CFDA # Various

**Criteria:** State law requires the Montana Department of Transportation (department) to, in accordance with appropriate federal regulations and guidelines, negotiate indirect cost reimbursement amounts and methodologies and recover indirect costs of federal assistance programs. OMB Circular A-87, Attachment A, Section C(3)(b) and (d), requires all activities that benefit from the department's indirect costs to receive an appropriate allocation of indirect costs, and requires the department to prepare a cost allocation plan in accordance with the circular's Attachment E. Attachment E, Section D(2)(a), requires the department to submit work sheets that are reconciled to the accounting records with the indirect cost proposal.

**Condition:** The department's cost allocation plans for fiscal years 2003-04 and 2004-05 did not comply with federal requirements. The plan for fiscal year 2004-05 did not include the carry forward of over or under recovery of indirect costs from fiscal year 2002-03. Additionally, the data used to calculate the indirect cost rates for fiscal years 2003-04 and 2004-05 was not reconciled to the accounting records and the rates calculated did not result in an equitable allocation of indirect costs to all programs. The department initially calculated an under recovery of indirect costs of \$3,303,064 for fiscal year 2002-03 and \$12,560,041 for fiscal year 2003-04, which it included in the fiscal year 2005-06 indirect cost rate calculation. These under recoveries of indirect costs were calculated by comparing federal indirect cost recoveries to total indirect costs incurred. This calculation did not consider the state's share of indirect costs. When the department subsequently recalculated its over or under recoveries, it found it had over recovered indirect costs of \$6,385,997 for fiscal year 2002-03 and \$1,446,199 for fiscal year 2003-04.

**Questioned Costs:** We believe the department's indirect costs are disproportionately charged to federal funds by more than \$10,000, so we question the allowability of the department's federal indirect cost charges.

**Context:** The department recovered federal indirect costs of approximately \$34 million in each fiscal year 2003-04 and 2004-05.

**Effect:** Errors in the indirect cost rate calculations and application can result in over or under recoveries of indirect costs and can cause a disproportionate share of indirect costs to be charged to federal funds.

**Cause:** Department stated they did not know why the errors were not identified during their review or the Federal Highway Administration's subsequent review of the cost allocation plans prior to the rates being approved.

**Recommendation:** We recommend the Montana Department of Transportation calculate indirect cost rates in accordance with federal regulations and state law.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-42:** U.S. Department of Homeland Security  
CFDA #97.004, 97.042, 97.053, 97.067, Homeland Security Cluster

**Criteria:** OMB Circular A-133, Subpart D, Section .400(d)(3), requires the Department of Military Affairs (department) to monitor the activities of its subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

**Condition:** The department developed a subrecipient monitoring plan, but did not conduct the subrecipient monitoring activities specified in that plan.

**Questioned Costs:** No questioned costs identified.

**Context:** The department expended approximately \$26 million under this award in fiscal years 2003-04 and 2004-05 combined. Of this, approximately \$17 million was disbursed to subrecipients.

**Effect:** The department did not comply with federal regulations.

**Cause:** Department personnel said they tried to hire an additional employee to assist with subrecipient monitoring, but have been unsuccessful.

**Recommendation:** We recommend the Department of Military Affairs implement a subrecipient monitoring program for those entities receiving Homeland Security grant funds as required by federal regulation.

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**Finding 2-43:** U.S. Department of Labor  
CFDA #17.207, Employment Service  
CFDA #17.225, Unemployment Insurance

**Criteria:** The Cash Management Improvement Act (CMIA) Treasury-State Agreement, Sections 6.1.1 and 6.1.2, require the Department of Labor and Industry (department) to request federal funds to ensure the funds will be received and credited to a state account by the times specified in the funding technique or specified clearance pattern noted in the agreement for the federal programs administered by the department.

**Condition:** The department did not comply with the CMIA. The Unemployment Insurance (UI) program used a 15-day rather than 4-day clearance pattern for benefit payments in fiscal year 2003-04. In fiscal year 2004-05, a 20-day pattern was required for benefit payments and a 15-day pattern was used. The Employment Services direct administration costs used a fixed interval weekly pattern in fiscal year 2003-04, when the agreement required the actual clearance pattern technique be used.

**Questioned Costs:** No questioned costs identified.

**Context:** Annually, the department pays out approximately \$79 million in UI benefits and \$6.2 million in Employment Services administrative expenditures.

**Effect:** The department is not in compliance with the CMIA agreement.

**Cause:** Department personnel stated the noncompliance resulted from changes made to the CMIA agreements. No changes in the federal program occurred to warrant any of the changes. The department communicated their concerns to the Department of Administration, the department responsible for negotiating the agreement. The Department of Administration agreed the changes were in error, but it was too late to submit an amendment in fiscal year 2003-04. The Department of Administration did submit corrections to the agreement effective July 1, 2005, which have been approved and corrected all but the fiscal year 2004-05 UI issue.

**Recommendation:** We recommend the Department of Labor and Industry continue to work with Department of Administration personnel to ensure the CMIA agreement terms are reasonable for the department's federal programs included in the agreement and comply with the terms of the Cash Management Improvement Act agreement.

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**Finding 2-44:** U.S. Department of Labor  
CFDA #17.207, Employment Service

**Criteria:** The March 2004, Compliance Supplement, page 3-I-1, requires the Department of Labor and Industry (department) to use the same state policies and procedures used for procurements from non-federal funds. The May 2005 Compliance Supplement did not modify this requirement.

**Condition:** We found the department did not follow department and state purchasing regulations. The department paid one vendor \$31,416 for printing services on 36 separate invoices. Department and state purchasing policy require all printing services, with the exception of business cards, go through the Department of Administration's Procurement and Printing Division. Since the total cost was over \$25,000, the project should have gone through competitive bid procedures as required by purchasing policies.

**Questioned Costs:** We question costs of \$31,416 in printing services payments charged to CFDA #17.207 for failure to comply with state purchasing and procurement policies.

**Context:** In our review of 11 purchasing vouchers, we noted one purchase that did not follow state and department purchasing regulations.

**Effect:** The department did not comply with department and state purchasing and procurement policies and, therefore, is also not in compliance with federal procurement requirements, resulting in questioned costs.

**Cause:** Department officials had already determined the printing service payments were not in compliance with purchasing regulations. Since the discovery of this issue, the department has provided training to department personnel on purchasing regulations and is considering additional control procedures that would detect and prevent similar situations in the future.

**Recommendation:** We recommend the Department of Labor and Industry follows department and state purchasing rules and regulations for all applicable purchases.

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**Finding 2-45:** U.S. Environmental Protection Agency  
CFDA #66.458, Capitalization Grants for Clean Water State Revolving Funds  
CFDA #66.468, Capitalization Grants for Drinking Water State Revolving Funds

**Criteria:** Federal regulation, 40 CFR 31.41(b)(3), requires the Department of Environmental Quality (department) to submit Financial Status Reports 90 days after the grant year-end.

**Condition:** The department did not submit financial status reports due September 30, 2004, as required. Of the ten reports required, two were submitted timely, two were between six and seven months late, and six have yet to be submitted.

**Questioned Costs:** No questioned costs identified.

**Context:** A total of ten reports were due on September 30, 2004; two were submitted by the deadline.

**Effect:** Noncompliance with federal reporting requirements.

**Cause:** Department officials stated they had requested an extension until December 31, 2004; however, they could not provide documentation the extension was approved. Department personnel also stated that staff turnover in the position preparing the reports, as well as within the Management Services Division, caused the reports to be submitted later than the September 30, 2004 deadline. The department plans to submit the remaining six reports for fiscal year 2003-04 with the fiscal year 2004-05 reports, due September 30, 2005.

**Recommendation:** We recommend the Department of Environmental Quality file federal Financial Status Reports as required by federal regulations.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-46:** Various Federal Agencies  
CFDA # Various

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the federal awards are managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on each of its federal programs. Federal regulation, 31 CFR 205.7(c), requires the Treasury-State Agreement be amended as needed to change or clarify its language when the terms of the existing agreement are either no longer correct or no longer applicable. It also requires the department to notify the U.S. Department of the Treasury within 30 days of becoming aware of a change. Federal regulation, 31 CFR 205.29(b), requires the department to maintain records supporting interest calculations, clearance patterns, interest calculation costs, and other functions directly pertinent to the implementation and administration of the Cash Management Improvement Act (CMIA). The department is to maintain these records for at least three years after the submission of its annual report. The Treasury-State Agreement states no interest liability will be incurred on cash drawn on federal programs if they are drawn in accordance with the agreement

**Condition:** The department prepares the Treasury-State Agreement and administers the CMIA for the state of Montana. The department does not have adequate controls in place to ensure compliance with federal regulations regarding the CMIA. We identified instances where the department was aware of information contained in the fiscal year 2003-04 Treasury-State Agreement that was incorrect, but the department did not make the required notification to the U.S. Department of the Treasury. The department also did not have supporting documentation for these instances. The department distributes interest calculation spreadsheets to the agencies to use in tracking the timing and amount of cash draws throughout the fiscal year. The spreadsheets specify what the clearance pattern and cash draw technique is for that federal program. The spreadsheet also contains formulas that calculate the interest liability due to or from the federal government based on the timing and amount of the draws. The department then uses these spreadsheets to accumulate the total interest due to or from the federal government for the fiscal year and to prepare the annual report. We identified instances where the department distributed interest calculation spreadsheets containing clearance patterns and draw techniques that did not correspond to the fiscal year 2003-04 Treasury-State Agreement.

**Questioned Costs:** No questioned costs identified.

**Context:** In our review of the fiscal year 2003-04 Treasury-State Agreement we identified instances affecting six state agencies and approximately twenty programs for which there were problems in the specific terms of the agreement and related spreadsheets for which the department did not have supporting documentation.

**Effect:** The department is not in compliance with OMB Circular A-133, 31 CFR 205.7(c), 31 CFR 205.29(b), and the Treasury-State agreement. The fiscal year 2003-04 interest liability for the state of Montana was not calculated in accordance with the approved fiscal year 2003-04 Treasury-State Agreement.

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**Cause:** The department experienced a transition in management responsible for this activity. Department personnel indicated they believed the errors in the agreement had been corrected. Department personnel believe if the agreement had been sent out for review by the agencies, as it should have been, the majority of the errors would have been detected and corrected up front. Department personnel also indicated they were not aware of the requirement to notify the federal government in writing within 30 days of becoming aware of a change. Department personnel indicated the majority of the errors were a result of a department employee having difficulties with the new federal contract development system. The system contains numerous drop down panels for selecting federal programs, funding techniques, clearance patterns, etc. Methods chosen from the drop down panels were incorrect, so the department's documentation does not support those methods. Department personnel indicated the interest calculation spreadsheets distributed for use by the agencies reflected the way the state actually did business. As a result, department personnel believe the fiscal year 2003-04 interest liability for the state of Montana was calculated accurately.

**Recommendation:** We recommend the Department of Administration establish controls to ensure:

- A. The federal government is notified of changes in the circumstances that affect the Treasury-State Agreement.
- B. The maintenance of proper documentation of all changes to the Treasury-State Agreement.
- C. The state/federal interest liability calculations included in the annual CMIA report submitted to the federal government are consistent with the approved Treasury-State Agreement.



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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-47:** U.S. Department of Interior  
CFDA #15.605, 15.611, Fish & Wildlife Cluster

**Criteria:** Federal regulation, 43 CFR 12.75, prohibits the Department of Fish, Wildlife and Parks (department) from entering into contracts or other transactions with entities that are suspended or debarred from receiving federal funds. This regulation applies to transactions for \$25,000 or more. Department policy requires review of the federal government's *Excluded Parties List System (EPLS)* prior to awarding a contract.

**Condition:** We reviewed the department's procedures for verifying its contractors are not suspended or debarred prior to paying them with federal funds. The department does not document its review for suspended and debarred parties. In addition, the department does not require vendors or contractors to certify they are not suspended or debarred.

**Questioned Costs:** No questioned costs identified.

**Context:** We reviewed 18 contracts involving federal funding and did not identify any suspended or debarred entities receiving payment from federal funds.

**Effect:** Without documentation that vendors and contractors are not suspended or debarred, the department cannot be assured it is in compliance with suspension and debarment regulations.

**Cause:** Department policy does not specifically require documentation be kept to demonstrate review of the *EPLS* occurred.

**Recommendation:** We recommend the Department of Fish, Wildlife and Parks document its review for suspension and debarment when awarding contracts to be paid with federal funds.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-48:** Various Federal Agencies  
CFDA # Various

**Criteria:** OMB Circular A-133, Subpart C, Section .300, requires the Department of Fish, Wildlife and Parks (department) to identify all federal awards received and expended and the federal programs under which they were received in the Schedule of Federal Assistance (SEFA) each fiscal year. In addition to expenditures, the SEFA includes other information such as the federal program name and Catalog of Federal Domestic Assistance (CFDA) number, and whether the money is received directly from the federal government or subgranted through another entity. State policy requires the department to reconcile the amounts presented on its SEFAs to the accounting records.

**Condition:** The department did not submit accurate and complete SEFAs for fiscal years 2003-04 and 2004-05. We reviewed these SEFAs and identified several types of errors. The fiscal year 2003-04 SEFA reported \$6.6 million as CFDA #10.664 expenditures. Of this amount, approximately \$2.1 million should have been reported under two other federal programs. The fiscal year 2004-05 SEFA did not report \$3.3 million of CFDA #10.676 expenditures and was not completely reconciled to the accounting records. In addition to these errors, we noted CFDA numbers reported did not agree to those on grant award documents, CFDA numbers reported had no support in grant award files, and expenditures reported were not supported by accounting records and other supporting schedules. The number and type of errors we identified indicates the department's controls over the SEFA report should be improved.

**Questioned Costs:** No questioned costs identified.

**Context:** The department reported approximately \$25.8 million and \$25.2 million of expenditures on its SEFAs for fiscal years 2003-04 and 2004-05, respectively.

**Effect:** There is an increased risk that the department did not accurately report federal expenditures. One or more of the types of errors described above impacted approximately \$20.7 million of reported expenditures for fiscal year 2003-04 and \$9 million of reported expenditures for fiscal year 2004-05.

**Cause:** Documentation supporting the CFDA numbers and reported amounts was not maintained, the SEFAs were not completely reconciled to the accounting records, and no supervisory review occurred prior to submission of the SEFAs.

**Recommendation:** We recommend the Department of Fish, Wildlife and Parks improve its controls over the preparation of its annual Schedule of Expenditures of Federal Awards.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-49:** U.S. Department of Interior  
CFDA #15.611, Fish & Wildlife Cluster

**Criteria:** OMB Circular A-87, Attachment A, Section C(1)(j), requires the Department of Fish, Wildlife and Parks (department) to have adequate documentation for costs to be considered allowable.

**Condition:** We reviewed expenditure transactions during fiscal year 2003-04 and 2004-05. Three of the documents reviewed were payments to vendors under contract with the department where the invoices submitted violated the contract payment terms. In two cases, the vendor submitted invoices that did not correspond with the payment schedules contained in the contract. The third case involved an invoice submitted at a flat rate for services, but the contract directed payment on a "per item" basis. We determined that two of the vendors received \$42,600 and \$266,764, respectively, during the audit period. The department paid the first vendor using both state and federal money. Of the payments made to the first vendor, we reviewed invoices totaling \$5,365, of which approximately 75 percent of these payments was charged to the Wildlife Restoration grant. The department paid the second vendor using general licensing moneys and no federal funds were involved.

**Questioned Costs:** Because these payments were not made in accordance with the governing contract terms, we question \$4,024 of the costs charged to CFDA #15.611 during the two years under audit and believe potential questioned costs exceed \$10,000.

**Context:** Of the 50 expenditure transactions reviewed, six involved exceptions.

**Effect:** Failure to compare vendor invoices to contracts or other governing documents increases the risk of erroneous or unsupported payments and resulted in questioned costs.

**Cause:** The employees who approved two of the contract invoices for payment were unaware of the respective contract provisions and in one case each of two employees thought the other was comparing the invoice to the contract. The employee responsible for approving the flat-rate invoice said the department had verbally negotiated the rates with the vendor and had forgotten to formally modify the contract.

**Recommendation:** We recommend the Department of Fish, Wildlife and Parks implement procedures to ensure claims are paid according to contract terms.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-50:** U.S. Department of Interior  
CFDA #15.605, 15.611, Fish & Wildlife Cluster  
CFDA #15.615, Cooperative Endangered Species Conservation Fund  
  
U.S. Department of Agriculture  
CFDA #10.676, Forest Legacy Program

**Criteria:** OMB Circular A-133, Subpart C, Section .300(b), requires the Department of Fish, Wildlife and Parks (department) to maintain internal control over federal programs that provides reasonable assurance the federal awards are managed in compliance with laws, regulations, and the provisions of the contracts or grant agreements that could have a material effect on each of its federal programs. The March 2004 Compliance Supplement, page 6-L-1, indicates that in establishing internal control over financial reporting, the objective for the department to meet is to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements. The May 2005 Compliance Supplement did not modify these objectives.

**Condition:** We reviewed eight reports submitted during fiscal years 2003-04 and 2004-05 for the Sport Fish Restoration and Cooperative Endangered Species Conservation Fund programs and found errors in four of them. The types of errors we identified included misclassified activity and unsupported amounts. Errors ranged from a low of \$136 to a high of \$311,058. We also reviewed a financial report submitted for a Forest Legacy Program grant. This report accurately reflected what should have been recorded on the department's accounting records, but because the preparer did not verify the reported activity with the accounting records, department personnel were unaware there was a \$3,289,000 error in the accounting records until we brought it to their attention.

**Questioned Costs:** No questioned costs identified.

**Context:** Five of the nine reports reviewed either contained errors or were not supported by the accounting records.

**Effect:** The department has not complied with federal reporting requirements.

**Cause:** Department personnel could not explain why amounts reported did not agree to amounts recorded on the accounting records for reporting purposes or provide support for classification decisions. Personnel responsible for preparing these reports believed the reports were reviewed by staff working with the federal programs. However, through various discussions with department staff, we determined the financial reports were not reviewed prior to their submission to the federal government.

**Recommendation:** We recommend the Department of Fish, Wildlife and Parks implement controls over its federal financial reporting process.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-51:** Various Federal Agencies  
CFDA # Various

**Criteria:** The Cash Management Improvement Act Treasury-State Agreements (TSA) require the Department of Fish, Wildlife and Parks (department) to request funds for the Fish & Wildlife Cluster (CFDA #s 15.605 and 15.611) according to specific cash draw patterns by type of expenditure. OMB Circular A-102, Attachment, Section 2(a), requires the department to minimize the time between the receipt and the disbursement of federal funds not addressed in the TSA.

**Condition:** We reviewed 30 cash draws, 15 from each of the two fiscal years under audit, and found errors in 21. The types of errors included the following:

- Draws were for more cash than was required. The excess cash drawn totaled \$74,500.
- Draws were for less cash than was required. The deficiencies totaled \$209,600.
- Draws totaling \$495,000 were unsupported. Department personnel could not explain why these amounts were drawn.
- Twenty of the draws did not properly include administrative costs. Administrative costs were not drawn and should have been, were drawn and should not have been, and were drawn in incorrect amounts.

In addition, we determined the department uses a single account to record the financial activity for the Fish and Wildlife Cluster as well as other federal grants. The cash draws for this account are made based on an analysis of cash balances and expenditures in total. The cash is drawn against one of the two large grants regardless of which federal grants have actually incurred the expenditures. During fiscal year 2003-04, department personnel prepared monthly reconciliations to determine which grants had incurred expenditures and determine appropriate credits and charges to the cash draw accounts maintained by the U.S. Treasury. We found those reconciliations were not used to adjust the cash draw accounts on a monthly basis and personnel informed us they have not reconciled fiscal year 2004-05 cash draws.

**Questioned Costs:** No questioned costs identified.

**Context:** The error rate in the sample indicates a systemic control issue exists at the department.

**Effect:** The department has not complied with federal cash management regulations or the TSA. In addition, because the reconciliations were not performed or used to correct cash draws, the department misled the federal government as to the use of the funds drawn.

**Cause:** Department personnel informed us that it is easier to draw money from the two large grants and then reconcile cash monthly because there isn't enough time to analyze each grant to determine how much cash is required on a daily basis.

**Recommendation:** We recommend the Department of Fish, Wildlife and Parks improve its controls over cash management to ensure compliance with the state's Treasury-State Agreement and other federal cash management regulations.

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**Section III - Federal Award Findings and Questioned Costs**

**Finding 2-52:** Various Federal Agencies  
CFDA # Various

**Criteria:** OMB Circular A-133, Section .300(b), requires the Department of Administration (department) to maintain internal control over federal programs that provides reasonable assurance the department is managing federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that have a material effect on each of its federal programs. Under provisions of the contract for the preparation, submission, and negotiation of the state's annual Statewide Cost Allocation Plan (SWCAP), the consultant is required to maintain records of the SWCAP and supporting information. OMB Circular A-87, Attachment C, Section D(4), requires all cost allocation plans be submitted within six months prior to the beginning of each of the state's fiscal years in which it proposes to claim central service costs. Extensions may be granted on a case-by-case basis.

**Condition:** We determined the department does not have an adequate control system in place to ensure compliance as required by federal regulations. Department personnel do not review the annual SWCAP prepared by the consultant or maintain documentation of control procedures performed by the consultant. We identified several errors, such as inclusion of \$200 in unallowable costs and exclusion of \$1,064 in allowable costs that could have easily been detected and corrected had adequate controls been in place. We determined 9,446 transaction lines were excluded from the data provided to the consultant, which could have been detected through a comparison of totals. In addition, the department could not provide supporting documentation for three of its allocation units. The department did not submit the SWCAPs for fiscal years 2002-03 and 2003-04 in the required timeframe. The fiscal year 2002-03 and 2003-04 SWCAPs were submitted 30 months late. The fiscal year 2004-05 SWCAP was 21 months late and the fiscal year 2005-06 SWCAP was 9 months late; however, the department subsequently received extensions.

**Questioned Costs:** No questioned costs identified.

**Context:** In the prior audit of the department, we recommended the department maintain records of the information provided to the consultant to document the state's compliance with terms of the SWCAP in the department's audit report for fiscal years 2002-03 and 2003-04. However, the most recently completed SWCAP that we audited for fiscal year 2004-05 had already been submitted at that time.

**Effect:** The department has not complied with federal regulations applicable to its indirect cost plan. In addition, without adequate controls in place, other instances of noncompliance can occur in the preparation of the SWCAP that may not be prevented or detected in a timely manner. The untimely submission of the annual the SWCAP has not affected the review and approval process as the federal government is behind schedule on their review and approval of SWCAPs.

**Cause:** During the audit period, the department experienced turnover in key positions. Employees new to these positions are unfamiliar with SWCAP process. Department personnel indicated control procedures have already been implemented to ensure compliance with federal regulations.

**Recommendation:** We recommend the Department of Administration establish procedures to ensure compliance with federal indirect cost requirements.

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**Finding 2-53:** U.S. Department of Agriculture  
CFDA #10.025, Plant and Animal Disease, Pest Control, and Animal Care  
CFDA #10.162, Inspection Grading and Standardization  
CFDA #10.475, Cooperative Agreements with States for Intrastate Meat and Poultry Inspection

U.S. Department of Homeland Security  
CFDA #97.004, State Domestic Preparedness Equipment Support Program

**Criteria:** OMB Circular A-87, Attachment A, Section E(1), indicates that to be allowable, direct costs charged by the Department of Livestock (department) must be identified specifically with a particular final cost objective. OMB Circular A-87, Attachment B, Section 8(h)(5)(e), indicates budget estimates or other distribution percentages determined before the services are performed do not qualify as support for personal services charges to federal awards.

**Condition:** The department cannot support personal services it allocated to its federal programs. The department used the three procedures to recover direct and indirect personal service costs from the federal government discussed below. None of the three procedures used are in compliance with federal regulations.

- The department negotiated an indirect cost proposal rate with the Federal Government for one of its federal grants. Rather than charging the negotiated rate, the department allocated one position in the Centralized Services Division (CSD) to the federal grant. The position in CSD did not work solely on the federal grant to which it was charged. The allocation of the position was intended to cover the indirect costs from the CSD for that federal grant.
- To recover indirect costs of the remaining federal grants, the department established budgets for each federal grant, including personal services from CSD. All CSD personnel recorded their time to the State Special Revenue Fund (SSRF) and do not track the time spent on each federal program. Throughout the year the department transferred personal service costs from the SSRF to the federal grant based on the established budget.
- The department established a budget for the direct personal service costs for the majority of its federal grants. Some of these personnel, who worked directly on the federal grants charged all of their time to the SSRF. During the year the department transferred the personal service costs from the SSRF to the federal grant based on the established budget of the federal grant rather than the hours department personnel worked on the federal program.

**Questioned Costs:** We question the allowability of personal services costs charged to the following federal programs in fiscal years 2003-04 and 2004-05: \$298,986 to CFDA #10.025, \$850 charged to CFDA #10.162, \$113,800 to CFDA #10.475 and \$5,000 charged to CFDA #97.004.

**Context:** Total combined expenditures incurred by the department in fiscal years 2003-04 and 2004-05 for each federal program are: \$1,770,619 for CFDA #10.025, \$72,131 for CFDA #10.162, \$971,008 for CFDA #10.475 and \$228,547 for CFDA #97.004.

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**Effect:** The department did not comply with federal regulations, resulting in questioned costs.

**Cause:** Department personnel thought these methods of recovering costs were allowable according to federal regulations.

**Recommendation:** We recommend the Department of Livestock comply with federal regulations and:

- A. Direct charge personal service costs to federal grants based on actual time spent by employees, and
- B. Maintain documentation of hours worked.